

# 079 - INTERNAL AUDIT

## Operational Summary

### Mission:

The mission of the Internal Audit Department (IAD) is to provide reliable, independent, objective evaluations and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as to contribute to protecting and safeguarding the County's resources and assets.

### Strategic Goals:

- Assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded; the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely information and relevant analysis for its business and financial decisions.
- Maintain integrity, objectivity and independence and provide professional internal audits, assurance and attestation services, and suggested corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and financial and business operations through our public audit reports and reviews.

### Key Outcome Indicators:

Performance Measure	2006 Business Plan	2007 Business Plan	How are we doing?
	Results	Target	
<b>CASH LOSS ACTIVITY</b> <b>What:</b> The County requires all cash losses to be reported to and reviewed by the Internal Audit Department. <b>Why:</b> Cash losses bring bad publicity and weaken public confidence in County operations.	The County did not have any large and material cash losses of \$50,000 or more.	The County should not have any large or material cash losses of \$50,000 or more.	We are on track to achieve our goal and we submit quarterly reports to the Audit Oversight Committee reflecting cash losses.
<b>USEFULNESS OF REPORTS AND CLIENT SATISFACTION.</b> <b>What:</b> Customer satisfaction surveys measure the value of our audit services and report products. <b>Why:</b> Provides feedback regarding professionalism, timely communications, partnering & technical knowledge	Overall, IAD received an average rating of 3.0 or more by the customer in our customer satisfaction surveys.	Achieve an average rating of 3.0 or more in our customer surveys.	We continue to receive positive customer feedback.

### FY 2006-07 Key Project Accomplishments:

- Develop and conduct an annual Audit Plan based on a comprehensive risk assessment.

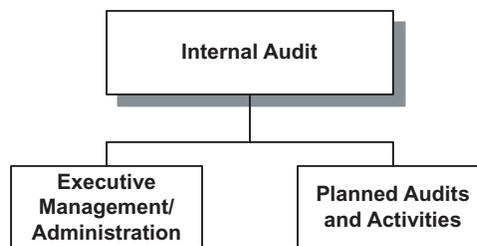
### At a Glance:

Total FY 2006-2007 Projected Expend + Encumb:	2,557,372
Total Recommended FY 2007-2008	2,695,175
Percent of County General Fund:	0.0895835%
Total Employees:	20.00



- Keep the Board of Supervisors, AOC, and County executive management informed of audit issues. Submit monthly audit activity summary reports to the Board of Supervisors.
- Follow a recognized internal control framework (COSO).
- Follow professional standards issued by the IIA, GAO, AICPA, and ISACA, as applicable.
- Instruct and train County executive managers on their ownership of and their responsibility for maintaining effective internal controls.
- Encourage professional certifications for staff.
- Develop and train audit staff and help them maintain their certifications.
- Apply EMAP, MAP, and PIP as directed by County Human Resources.

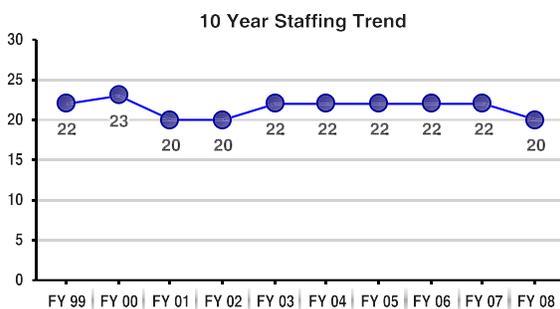
## Organizational Summary



**Executive Management** - The Executive Management/ Administration team provides fiscal management, procurement and human resources, system security and technical services support, leadership, management oversight and direction to Internal Audit function.

**General Audits** - This is the core function of the department and consists of sixteen professional audit staff.

### Ten Year Staffing Trend:



### Ten Year Staffing Trend Highlights:

- The Internal Audit Department was established as a separate department independent of the County Auditor-Controller by Board Resolution dated April 25, 1995. Arthur Andersen L.L.P. was contracted at that time by the County to manage the Internal Audit function until a permanent director could be recruited. In 1997, a director was appointed and eight additional positions were added; in 1999 one Staff Analyst position was added; in 2000, two positions were eliminated in the Information Systems Auditing function and outsourced to consultants; additionally, two Auditor II positions were exchanged for one Senior Auditor I. In 2001, two auditor positions were added for integrated audits of specifically focused issues in the Countywide Accounting and Personnel System (CAPS).
- In 2007-08, the Auditor-Controller will no longer contract with the Internal Audit Department to perform the Treasury Funds Audit and the biennial Probation Review resulting in a cost applied loss of \$138,250. As a result, 2 positions were recommended for deletion and transfer to the Auditor-Controller.



## Budget Summary

### Plan for Support of the County's Strategic Priorities:

Internal Audit will continue to support and assist the Board of Supervisors and County management. Internal Audit's contribution is testing and reporting on the effectiveness of their internal control systems and processes as these relate to safeguarding the County's assets and resources, prudent and reasonable financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

### Proposed Budget History:

Sources and Uses	FY 2005-2006	FY 2006-2007	FY 2006-2007	FY 2007-2008	Change from FY 2006-2007	
	Actual	Budget As of 3/31/07	Projected <sup>(1)</sup> At 6/30/07	Recommended	Projected Amount	Percent
Total Positions	22	22	22	20	(2)	-9.09
Total Revenues	39,338	37,440	44,929	47,040	2,111	4.70
Total Requirements	2,317,470	2,831,977	2,592,468	2,695,175	102,707	3.96
Net County Cost	2,278,132	2,794,537	2,547,539	2,648,135	100,596	3.95

(1) Requirements include prior year encumbrance and expenditures. Therefore, the above totals may not match FY 2006-07 projected requirements included in "At a Glance" (Which exclude these).

Columns may not total correctly due to rounding.

Detailed budget by expense category and by activity is presented for agency: Internal Audit in the Appendix on page A574

### Highlights of Key Trends:

- Retirements of key county management open up new positions. The experience and skills of the retiring staff cannot be immediately replaced, and as a result we are expecting more internal control weaknesses and breaches.
- Moreover, the upcoming CAPS replacement implementation will further stress management resulting in possible internal control issues.
- We are soon completing our Annual Risk Assessment factoring in the above two key trends. We see that we will focus more resources on internal control reviews and system implementation assistance.

### Budget Units Under Agency Control:

No.	Agency Name	Executive Management	General Audits	Total
079	Internal Audit	819,069	1,876,106	2,695,175
	Total	819,069	1,876,106	2,695,175



## 079 - Internal Audit

### Summary of Proposed Budget by Revenue and Expense Category:

Revenues/Appropriations	FY 2005-2006	FY 2006-2007	FY 2006-2007	FY 2007-2008	Change from FY 2006-2007	
	Actual	Budget As of 3/31/07	Projected <sup>(1)</sup> At 6/30/07	Recommended	Projected Amount	Percent
Charges For Services	\$ 37,440	\$ 37,440	\$ 43,680	\$ 47,040	\$ 3,360	7.69%
Miscellaneous Revenues	1,238	0	1,249	0	(1,249)	-100.00
Other Financing Sources	660	0	0	0	0	0.00
<b>Total Revenues</b>	<b>39,338</b>	<b>37,440</b>	<b>44,929</b>	<b>47,040</b>	<b>2,111</b>	<b>4.70</b>
Salaries & Benefits	2,202,052	2,436,544	2,268,055	2,207,870	(60,185)	-2.65
Services & Supplies	269,028	492,223	423,460	510,345	86,885	20.52
Fixed Assets	0	12,000	9,743	0	(9,743)	-100.00
Intrafund Transfers	(153,610)	(108,790)	(108,790)	(23,040)	85,750	-78.82
<b>Total Requirements</b>	<b>2,317,470</b>	<b>2,831,977</b>	<b>2,592,468</b>	<b>2,695,175</b>	<b>102,707</b>	<b>3.96</b>
<b>Net County Cost</b>	<b>\$ 2,278,132</b>	<b>\$ 2,794,537</b>	<b>\$ 2,547,539</b>	<b>\$ 2,648,135</b>	<b>\$ 100,596</b>	<b>3.95%</b>

(1) Requirements include prior year encumbrance and expenditures. Therefore, the above totals may not match FY 2006-07 projected requirements included in "At a Glance" (Which exclude these).

Columns may not total correctly due to rounding.

### Proposed Budget Summary of Executive Management:

Revenues/Appropriations	FY 2005-2006	FY 2006-2007	FY 2006-2007	FY 2007-2008	Change from FY 2006-2007	
	Actual	Budget As of 3/31/07	Projected <sup>(1)</sup> At 6/30/07	Recommended	Projected Amount	Percent
Salaries & Benefits	\$ 673,605	\$ 698,999	\$ 702,770	\$ 691,304	\$ (11,466)	-1.63%
Services & Supplies	118,930	252,465	130,310	127,765	(2,545)	-1.95
Fixed Assets	0	0	9,743	0	(9,743)	-100.00
<b>Total Requirements</b>	<b>792,535</b>	<b>951,464</b>	<b>842,823</b>	<b>819,069</b>	<b>(23,754)</b>	<b>-2.82</b>
<b>Net County Cost</b>	<b>\$ 792,535</b>	<b>\$ 951,464</b>	<b>\$ 842,823</b>	<b>\$ 819,069</b>	<b>\$ (23,754)</b>	<b>-2.82%</b>

### Proposed Budget Summary of General Audits:

Revenues/Appropriations	FY 2005-2006	FY 2006-2007	FY 2006-2007	FY 2007-2008	Change from FY 2006-2007	
	Actual	Budget As of 3/31/07	Projected <sup>(1)</sup> At 6/30/07	Recommended	Projected Amount	Percent
Charges For Services	\$ 37,440	\$ 37,440	\$ 43,680	\$ 47,040	\$ 3,360	7.69%
Miscellaneous Revenues	1,238	0	1,249	0	(1,249)	-100.00
Other Financing Sources	660	0	0	0	0	0.00
<b>Total Revenues</b>	<b>39,338</b>	<b>37,440</b>	<b>44,929</b>	<b>47,040</b>	<b>2,111</b>	<b>4.70</b>
Salaries & Benefits	1,528,448	1,737,545	1,565,285	1,516,566	(48,719)	-3.11
Services & Supplies	150,098	239,758	293,150	382,580	89,430	30.51

## Proposed Budget Summary of General Audits:

Revenues/Appropriations	FY 2005-2006	FY 2006-2007	FY 2006-2007	FY 2007-2008	Change from FY 2006-2007	
	Actual	Budget As of 3/31/07	Projected <sup>(1)</sup> At 6/30/07	Recommended	Projected Amount	Projected Percent
Fixed Assets	0	12,000	0	0	0	0.00
Intrafund Transfers	(153,610)	(108,790)	(108,790)	(23,040)	85,750	-78.82
<b>Total Requirements</b>	1,524,936	1,880,513	1,749,645	1,876,106	126,461	7.23
<b>Net County Cost</b>	\$ 1,485,597	\$ 1,843,073	\$ 1,704,716	\$ 1,829,066	\$ 124,350	7.29%